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Education and Entrepreneurship in Amman, Jordan

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Briana Nicole Bills

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EDUCATION AND ENTREPRENEURSHIP IN AMMAN, JORDAN

By

Nicole Bills

Submitted in Partial Fulfillment
of the Requirements for
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Education and Entrepreneurship in Amman, Jordan

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Thesis Summary

My thesis examines the potential economic impact of entrepreneurial education in Amman, Jordan. In order to investigate this topic, I also considered the economic impacts of increased entrepreneurship and access to education more broadly. I found that entrepreneurial education is just a small piece of a much larger ecosystem needed to support economic development. In fact, encouraging the creation of nascent firms is a somewhat dubious aim given the lack of scholarship assessing whether there is a shortage of entrepreneurial activity in the Jordanian economy. Institutional factors are a vastly more important component of efforts to spur growth.

I investigated the question of entrepreneurial impact from the standpoint of economic theory. Research in the industrial organizational tradition supports the idea the entrepreneurship promotes “creative destruction” that serves to move the economy toward a more productive equilibrium. There are also a number of positive externalities associated with increased firm creation, such as cultural shifts and increased demand for higher education. However, the negative aspects of excessive entrepreneurial activity can potentially outweigh these benefits. Efforts to spur firm creation are only advantageous if the economy is experiencing an underallocation of entrepreneurship.

Although a definitive determination is outside the scope of my research, it seems unlikely that Jordan suffers from a shortage of entrepreneurship. In fact, excessive levels of self-employment within the informal economy keep resources trapped at the least productive level of economic composition. Given this finding, I recommend that policymakers avoid singling out entrepreneurship as a target for development reforms. Rather, policymakers should adopt a “rising tide lifts all boats” approach to development,

focusing their efforts on institutional reforms that will improve ease of doing business for all firms, regardless of their size.

In addition to studying the economic theory behind entrepreneurship, I also examined educational factors relevant to this issue. Seeing as how Jordanians attend secondary and tertiary school at high rates (98% and 47% respectively), it follows that Jordanians do not need increased access to schooling, but rather improved quality of education in order to meet the needs of the labor force. Since 1994, Jordan has been engaged in reforms to reduce the prevalence of transmissive teaching methods. These efforts seek to provide students more opportunities to develop creative thinking, problem solving, and related skills. Thus, these reforms represent the broadest aspect of entrepreneurial education, through which students gain soft skills and an entrepreneurial mindset.

A growing number of students are choosing to devote their undergraduate and masters studies to learning about entrepreneurship more narrowly. Although the expansion of these classes is in keeping with the economic principal that more choice is beneficial, there are also a number of risks associated with increasing access to entrepreneurial content. First, these classes may present an overly rosy picture of the challenges of starting a business in Jordan. This may encourage students to create new startups without adequate preparation. Second, these classes may not best meet the demand for small business education. In my small survey of Masters of Entrepreneurship candidates, only 50% were interested in starting a business after graduation. Finally, educational reforms and reforms directed at increasing entrepreneurship should not

distract from efforts to improve institutions, which are the key drivers of economic growth.

In conclusion, advancing economic development would have enormous benefits in terms of avoiding political instability and promoting a higher quality of life for Jordan's 8 million residents. With a youthful and continually growing population, Jordan could experience mounting income inequality and instability in coming decades unless policymakers are able to considerably increase employment opportunities. Given these high stakes, economic policies should be substantiated by evidence and not merely advocated because they align with stakeholder interests. Policymakers need to use the tools of economics, as outlined in this paper, to determine which policies will most effectively promote development.

Introduction

The lack of opportunity afforded by a robust economy remains a major challenge for many countries in the Middle East and North Africa, such as the Arab kingdom of Jordan. The population skews young; more than 35% of Jordan's 8 million residents are under the age of 15 (The World Factbook 2015). Already, unemployment is substantial, especially for Jordanian youth, women, and college graduates. Without a considerable increase in available employment in coming decades, Jordan could be wracked by mounting income inequality and political instability. Against this backdrop, Jordan's leaders in government and nongovernmental organizations have engaged in a number of efforts to boost the capacity of its small and medium enterprise sector (World Bank 2014).

To the extent that education reveals national priorities and hopes for the future, the growing emphasis on entrepreneurial content and skills in the classroom reveals the importance of entrepreneurship as a public policy goal. Improving access to entrepreneurial education is very much in the spirit of recent policies such as the 2003 Educational Reform for the Knowledge Economy (ERfKE) initiative. This type of broad educational reform aims to advance students' readiness to enter the modern economy by equipping them with information and communication technology skills, improved critical thinking, and an entrepreneurial mindset. Furthermore, recent years have seen the expansion of a narrower approach to teaching about entrepreneurship, exposing young people to the idea of starting a business and giving them the skills needed to help that business grow. The existence of many NGOs that advance entrepreneurial skills further

supports the idea that spurring innovation is an important goal of Jordanian educators and policymakers (Masri 2010).

This expansion of entrepreneurial education raises many questions about the existing state of education and the role of entrepreneurship in Jordan. In many developing economies today, entrepreneurship is seen as a development solution. The state is no longer perceived as capable of securing the well-being of national populations, meaning that individuals, families, and local communities are increasingly held responsible for their own well-being. Entrepreneurs aspire to forge their own path toward economic independence and provide products, services, and, most importantly, jobs to their community.

The study of entrepreneurship as a field of economics is quite young, with many important questions yet to be answered. While the industrial organizational model provides policymakers with some tools to better understand how and when to promote entrepreneurship, economic theory leaves much to be desired in terms of a nuanced understanding of entrepreneurial activity. For example, the discipline has yet to comprehensively model several possible externalities related to entrepreneurship's effect on economic culture and educational outcomes. Moreover, the academic community cannot yet provide conclusive insights as to whether access to entrepreneurial education has any effects on boosting entrepreneurship or economic growth and employment. Given this lack of information, policymakers have limited basis upon which to advocate for the expansion of entrepreneurial opportunities and training. Entrepreneurship nevertheless remains an important aspect of development efforts in Jordan.

In order to investigate the potential for entrepreneurial education to create jobs and grow the Jordanian economy, this paper proposes three guiding questions:

- Can entrepreneurship benefit the Jordanian economy?
- Can increased access to education benefit the Jordanian economy?
- Can entrepreneurial education benefit the Jordanian economy?

My effort to answer these questions has involved conducting an extensive literature review and some original research in Amman, Jordan. The first section of paper investigates development theories and different economic models for the role of the entrepreneur. I also consider microlending and its outcomes as a case study for the promotion of “necessity entrepreneurship.” Next, I turn my attention to the specific case of Jordan and explore the country’s institutional, geopolitical, and cultural barriers to entrepreneurship, as well as possible opportunities for entrepreneurs. The final section of the paper considers the educational system and its impact on career outcomes, with particular focus on the potential benefits and risks of expanding access to entrepreneurship education. The appendix highlights my original contribution to the field of educational entrepreneurship research. Over the course of a trip to Jordan in March 2015, I conducted interviews with consultants, staff at incubators, entrepreneurs, and teachers to substantiate my literature review. I also received 229 responses to a survey intended to collect the goals and perceptions of business students at a private university in Amman, Jordan.

Although Jordan is a highly specific case with many unique features, much of the discussion here is applicable to other developing countries in the region and across the globe. The push for entrepreneurship is ubiquitous among neoliberal solutions to development. Above all, this report attempts to demonstrate there are still significant

gaps in economic approaches to entrepreneurship. The case for the wholesale promotion of entrepreneurial solutions to development challenges is not as simple as some policymakers and aid specialists would like us to believe.

Advancing economic development in Jordan would have widespread benefits in terms of providing stability and a better quality of life for millions of citizens and refugees from neighboring countries. Jordan has played a pivotal role in the region's refugee crisis with a population of 2.8 million refugees, largely from Palestine and Syria (World Bank 2014). Moreover, the rapid growth within the population under 25 years of age poses significant challenges, particularly given that this type of "youth bulge" in population is associated with a higher risk for conflict (Urdal and Strand 2008). The stakes of development are high. Economic policies should be backed up by evidence and not merely advocated because they align with stakeholder interests and political banalities.

The Theory and Practice of Encouraging Entrepreneurship

Since the 1990s, entrepreneurship has entered the public consciousness as an economic buzzword touted by politicians and the media (Calcagnini and Favaretto 2011). The salience of entrepreneurship can be traced back two decades to the neoliberal policies promoted by Margaret Thatcher in the UK and Ronald Reagan in the U.S. that attempted to create market-based solutions for societal problems such as inequality and poverty (Londström 2005). In the developing world, the rise of microlending institutions such as Grameen Bank and Kiva advanced the thesis that providing access to credit to small enterprises could lift individuals, families, and perhaps entire communities out of poverty (Bateman and Chang 2012). Despite the current paucity of entrepreneurship research in the economics community, many economists¹ accept the assumption that entrepreneurship is a key factor in promoting growth (Rocha 2012). Such assumptions are rooted in economic theories that articulate the relationship between entrepreneurs and macro-economic performance. However, the role of venture creation in promoting economic growth remains controversial.

Given the significant paucity of empirical studies investigating the effect of entrepreneurship on macroeconomic performance, economic theory is currently the best tool for understanding the entrepreneur's many economic functions. Furthermore, the tradition of industrial organizational analysis provides a means to assess the allocation of entrepreneurs against an optimal equilibrium. This model attempts to reframe the question "what is good for the economy?" by asking "what will move the supply of entrepreneurs closer the productivity-maximizing equilibrium?" This should be a central

¹ See Bourne (2011); Hormiga, Batista-Canino, and Sanchez-Medina (2011); Mainardes, Alves, and Raposo (2011); Yang and Li (2011); Mendez-Picazoa, Galindo-Martin, and Ribeiro-Soriano (2012).

question in development economics, the field of study exploring the economic aspects of the development process in low-income countries.

Development economics has traditionally been characterized by “a discursive, non-mathematical style” in contrast to the increasing “reliance on numerical examples and mathematical models” across other economic disciplines. The breakthrough in development economics occurred in the 1970s when theorists created formal models based in the tradition of industrial organization² (Krugman 1995). The origin of this discipline dates back to Joseph Alois Schumpeter, one of the first economists to study entrepreneurs. Schumpeter argued that economic performance should be measured by how effectively resources are utilized across small, medium, and large firms. In *Theory of Economic Development* (1934), he championed the entrepreneur’s role as that of “creative destruction,” the process of disturbing the status quo to push society toward a more productive equilibrium (Rocha 2012). Schumpeter’s theories allow economists to better understand entrepreneurship as a building block of the economy and determine if there is an over- or under-allocation of new firms.

Industrial organizational frameworks diverge significantly from those of neoclassical economics, such as the Solow-Swan model (1956). Whereas Solow and Swan considered technological improvements exogenous to long-term economic growth, much of the recent work connecting entrepreneurship to economic growth has followed the Schumpeterian tradition recognizing entrepreneurs’ role in promoting and actualizing change. For example, in the knowledge spillover theory of entrepreneurship created by Sanders (2007), the basis for economic development is the scientific community, which develops knowledge in pursuit of reputation. Knowledge creation inadvertently

² This term describes a mode of economic study based on composition in terms of firm size.

generates entrepreneurial opportunities, and therefore new ventures play an important role in transmuting scientific advancement into economic progress (Carree and Thurik 2010). This framework represents an example of how industrial organizational theory provides a framework for isolating the effect of entrepreneurship on the economy. Rather than blindly advocating for more entrepreneurial activity, industrial organizational theorists recognize that not all firms contribute to economic growth or poverty reduction.

Applying Schumpeterian thinking to G7 countries, Carree, van Stel, Thurik, and Wennekers (2002, 2007) found that a deviation from the “equilibrium” rate of business ownership among similarly developed countries can detrimentally affect economic growth. Though many countries in their sample set had too few self-employed individuals, Italy was the most notable exception with a glut of marginal businesses. In contrast, the Scandinavian countries with large public sectors and high taxes had a suboptimal level of entrepreneurship (Carree and Thurik 2010). According to this theory, a government that can accurately identify the level of entrepreneurial activity relative to the industrial organizational equilibrium could use public policy to nudge the business sector toward a more efficient industrial organization.

In contrast to the mathematically-oriented approach outlined above, many development-oriented policymakers champion entrepreneurship based on its intrinsic merits. An inaccurate understanding of economic research has promoted the “stylized fact”³ that entrepreneurial activity is positively related to growth (Carree and Thurik 2010, 2). The reverse causality of economic growth on entrepreneurial activity presents a confounding variable that further undermines the commonly accepted wisdom regarding

³ With this comment, I believe Carree and Thurik are referring to the overly generalized conclusions drawn by some policymakers, aid specialists, and economists based on limited information regarding the relationship between entrepreneurial activity and growth.

start-up enterprises.⁴ Moreover, there is little empirical work upon which to base policy recommendations to spur entrepreneurship. With the notable exception of the Global Entrepreneurship Monitor (GEM) research program, most economic studies have investigated the growth and survival rates of new businesses at the firm or regional level, which is an insufficient basis to guide public policy (Carree and Thurik 2010).

When policymakers champion entrepreneurship without first considering the existing composition of their national economy, their policies are harmful for two reasons. First, encouraging entrepreneurship concentrates resources at the least productive level of the economy. This loss of productivity is the result of inefficiencies created when firms are too small to effectively utilize their physical and human capital resources (Carree and Thurik 2010). Second, these programs to incentivize entrepreneurship in turn divert resources from policy initiatives that would be more effective. By concentrating on nascent firms, policymakers incur the opportunity cost of not assisting small and medium-sized enterprises (SMEs), providing tax breaks, or pursuing foreign investment (“Development Consultant” 2015). While entrepreneurial activity is undoubtedly an important component of a well-functioning economy, the conclusion that entrepreneurial activity is positively related to growth is highly dependent on the composition of the economy in question. Even taking into account the existence of possible externalities, discussed below, industrial organization theory provides the best tool for informing effective public policy regarding entrepreneurship.

⁴ In other words, entrepreneurs are more likely to start a business if the economy is booming because of higher levels of demand and easier access to credit. The influence of the business cycle on rates of entrepreneurship therefore represents a confounding variable in determining the impact of entrepreneurship on economic growth.

The industrial organization equilibrium demonstrates the impact that efforts to promote entrepreneurship can have on promoting or hindering growth. However, this theory does not take into account possible spillover benefits of entrepreneurship. Scholars studying these externalities argue that regardless of a given country's position relative to its industrial organizational equilibrium, its economy will benefit from the promotion of entrepreneurship due to spillover benefits to the country's "economic culture"⁵ and educational outcomes. These theories predict that the adoption of industrial organizational models leads to an underallocation of entrepreneurs, as shown in Figure 1. Because these externalities have not yet been adapted into economic models, it is difficult to identify their impact beyond a brief investigation into the possibility of their existence.

Several social science researchers point to a link between entrepreneurship and cultural shifts that contribute to productivity. Lewis (1959) and Harrison (2000) use the term "culture of poverty" to refer to the shared economic values of individuals, families, and nations mired in chronic poverty. This term encompasses "strong feeling[s] of marginality, of helplessness, of dependency, of not belonging... of inferiority... of personal unworthiness" (Lewis 1959, xvi). Engaging in entrepreneurship, according to some scholars, can help business-owners gain individual agency and future time orientation, potentially breaking a cycle of poverty (Brewer 2012, *Consortium for Entrepreneurship Education*). More research is necessary to formalize this relationship between entrepreneurship and changing cultural attitudes.

⁵ Term coined by Michael Porter to encapsulate "the beliefs, attitudes, and values that bear on the economic activities of individuals, organizations, and other institutions" (2000, 219). Porter wrote that "the role of culture in economic progress is unquestioned[.]" however "interpreting this role in the context of other influences and isolating the independent influence of culture is challenging" (2000, 229).

Entrepreneurial activities also have significant educational benefits that are not accounted for in the industrial organizational model. Investigating data from Brazil, Dias and McDermott found that “states with more entrepreneurs have higher educational achievement among the young” (2006, 301).

This result is likely due to the entrepreneurs’ demand for more educated workers, which facilitates opportunities for human capital development, both directly (through worker

education and training) and indirectly (through improved schools, libraries and clubs)

(Dias and McDermott 2006). Moreover, entrepreneurship has educational benefits for the small business owners themselves, who take on more responsibility than if they were small business employees. The lessons learned from entrepreneurship allow these individuals to contribute more effectively to the economy in the future (Brewer 2012).

These cultural and educational externalities of self-employment are largely dependent on the kinds of ventures that entrepreneurs set out to create (Brewer 2012). This distinction will inform a discussion of why certain ventures grow and contribute to the economy and others do not. In order to investigate how the intentions of entrepreneurs define their impact on the economy, the Global Entrepreneurship Monitor (GEM) coined the terms “necessity entrepreneurship” and “opportunity entrepreneurship” in 2001 (Brewer 2012). Necessity entrepreneurs are forced into creating their own

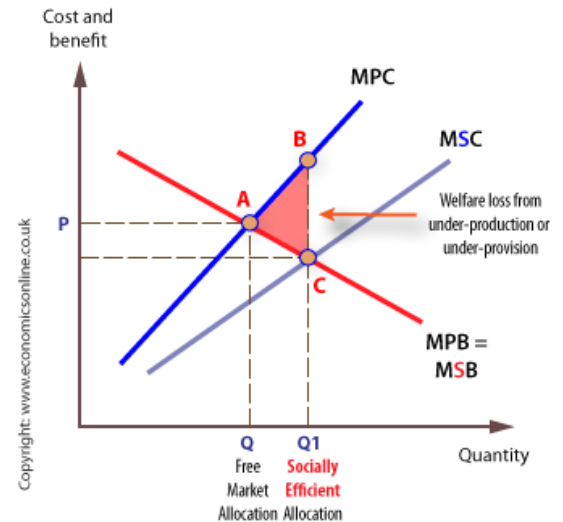


Figure 1: Graph showing how, given the existence of positive externalities, the supply of entrepreneurs is underallocated in free market conditions. The free market supply of entrepreneurs is represented by the marginal private cost line (MPC) where the optimal supply is represented by the marginal social cost (MSC) (“Positive Externalities” 2015).

business as a survival mechanism when formal employment is unavailable. Such ventures are prevalent in the developing world, often taking place in a quasi-legal sector between the black market and registered businesses. This informal economy, or grey market sector, functions as a de facto welfare system for millions of impoverished individuals and families around the world. Despite the abundance of economic activity that can be placed into this category, necessity entrepreneurship does not contribute to economic growth. Opportunity entrepreneurs, on the other hand, are interested in starting a business to capitalize on a new innovation, pursue a profitable avenue as yet ignored by the business community, and/or to assume the risk associated with uncertainty (Scott 2009).

It is important to note that categorizing enterprising individuals as either opportunity or necessity entrepreneurs creates a false dichotomy. In reality, there is a spectrum between the two extremes. If necessity entrepreneurs can take on more of the characteristics and skills of opportunity entrepreneurs, the individual and society may benefit. Furthermore, if necessity entrepreneurs can be taught how to utilize the business acumen gained from running their small venture, they may be able to move into the formal economy or make their next project an opportunity enterprise.

The dynamic between these admittedly simplistic categories raises many questions about the impact of public policy on the entrepreneurial sector. Governments and foreign aid programs often fall into the trap of funding necessity entrepreneurs to the detriment of opportunity ventures that could potentially create more jobs, wealth, and GDP growth. In fact, there is much work to be done to improve the effectiveness of public policies that promote entrepreneurship because “there is a lot of evidence that

these policies lead people to start marginal businesses that are likely to fail, have little economic impact, and generate little employment” (Shane 2009, 141). The question of how public policy can be better implemented, with a particular focus on effectively promoting economic growth in Jordan, will guide this investigation throughout the following sections.

The spread of microfinance, the practice of providing small loans to very poor entrepreneurs, is an excellent case study for investigating the public policy challenge outlined above. When Bangladeshi economist Muhammad Yunus began the Grameen Bank Project in 1976, he hoped to help impoverished individuals, especially women, grow small businesses. Yunus’ innovative model of lending to individuals too poor to qualify for traditional bank loans flourished in the Bangladeshi village in which the bank was founded. The project expanded quickly and received state funding in 1983. The microfinance model,⁶ oft imitated since Grameen’s initial success, became “one of the world’s most high-profile and generously funded⁷ development interventions” (Provost 2012). Grameen Bank now operates in 44 countries. In 2006, the organization and its founder were jointly awarded a Nobel Peace Prize for efforts to reduce global poverty (Levin 2012). The early success of the microfinance model resonated with the neoliberal idea that impoverished individuals could “pull themselves up by their bootstraps,” so to speak, and promote growth on a national level.

Until recently, microfinance was widely considered “something of a ‘miracle cure’ for global poverty” (Provost 2012). After a series of conflicts between borrowers

⁶ Although some scholars distinguish between the terms microcredit and microfinance, I use them interchangeably.

⁷ Grameen Bank, which has been self-funding since 1998, had disbursed \$11.21 billion USD by 2012 (Levin 2012). Another major microlending institution, Kiva, has lent over \$750 million USD using entirely crowd-funded capital (“About Us”).

and microlenders, most notably in Mexico, Nicaragua, and Pakistan, microcredit has been exposed to increased scrutiny of its practices, ethics, and outcomes (Scott 2013). A large number of farmers in Andhra Pradesh, India committed suicide in 2010 as a result of excessive pressure to repay exploitative loans. This crisis garnered global concern about the lack of regulation in microfinance, which allowed lending institutions to charge interest rates upwards of 50% and profit off impoverished villagers in the name of economic development⁸ (Levin 2012). According to Yunus, these troubles began in 2005 when microcredit banks started to go public, and “borrowers came to believe lenders were taking advantage of them, and stopped repaying their loans” (2011). In addition to predatory lending practices, Grameen Bank and other microlending institutions such as Kiva and Ananya have been criticized for loose accounting standards and misleading advertising surrounding peer-to-peer lending effort⁹ (Provost 2012, Roodman 2010, Strom 2009).

Economists Bateman and Chang argue that challenges in the microfinance sector run far deeper than commercialization. In holding the individual entrepreneur responsible for wealth creation, microlending is based on the “attractive but false premise that poor people can make themselves richer [with] access to credit.” This perspective ignores the structural conditions that produce poverty and distracts from effective poverty

⁸ According to the Consultative Group to Assist the Poor, “[b]ased on the best data available, the median interest rate for sustainable (i.e., profitable) [microfinance institutions] was about 26 percent in 2006” (2009).

⁹ Kiva’s lending practices are misleading because the donor-to-borrower connections advertised on the site are purely fictional. In reality, donors are merely backstopping loans already disbursed by local microfinance institutions. After David Roodman, a research fellow at the Center for Global Development, broke this story and generated an internet furor, Kiva was forced to change the language on its homepage. Where the site once stated, “Kiva lets you lend to a specific entrepreneur, empowering them to lift themselves out of poverty,” it now simply reads, “Kiva connects people through lending to alleviate poverty” (Strom 2009).

reduction strategies involving institutional actors rather than individuals.¹⁰ Moreover, Bateman and Chang fault microlenders for misleading donors about the common use of microloans (Bunting 2011). As lending institutions have no way to ensure loans are used to create small businesses, most loans (estimates range from 50-90%) are used for “consumption smoothing” (Bateman and Chang 2012, Sinclair 2012). Bateman and Chang’s concerns call not only microlending into question, but also reflect poorly on the premise that entrepreneurship alone can promote sustainable growth.

Rather than encouraging poor individuals to take on debt, David Roodman argues that banking institutions should focus on providing savings deposit, insurance, and money transfer services for the poor. Like Bateman and Chang, he questions the effectiveness of microlending programs in terms poverty alleviation and cites concerns about the vast amount of profit to be made by microlending institutions (Roodman 2012). The high interest rates required to recoup loans to vulnerable populations provides a \$30 billion USD a year incentive that distorts the motivations of microlending organizations, whether or not they enter the sector with charitable motivations (Sinclair 2012).

There is also some concern that microfinance is not very successful at creating prosperous small businesses in the long run. Apart from the lack of institutional change discussed above, these models fail to generate growth on a macroeconomic scale due to oversaturation, also called the “piling in” effect. When a microentrepreneur hits on a good idea, there are no barriers to entry to stop her neighbors from replicating it with their own microenterprises. In order to circumvent these problems, a nation must be

¹⁰ Ease-of-doing business improvements represent an obvious target for policy reform, simultaneously encouraging entrepreneurship on a broad scale and promoting the growth of already existent businesses (Johnson 2013). For example, consider the rapid growth of Vietnam, China and South Korea following state coordinated policy interventions (Bunting 2011).

sufficiently developed such that entrepreneurs have access to the technological options, skilled labor, and financial resources required to effectively capitalize on an innovative opportunity (Bunting 2011).

In recent years, leaders within the microfinance sector have called for responsible lending practices and increased client protection (Scott 2013). Regardless of how well these initiatives are implemented, it is not clear that encouraging entrepreneurship through microfinance is the most effective way to promote inclusive development. Given the significant opportunity cost of leaving some countries isolated from the rising tide of global development, the stakes are high for investing sustainably and efficiently in the developing world. In an ideal world, state coordinated reforms would create a business environment with improved infrastructure, limited bureaucracy, and reduced corruption. These institutional improvements would then promote the kind of opportunity entrepreneurship that is conducive to economic development. However, institutional reforms are often much more challenging than market reforms like improving access to credit (Johnson 2013).

Microfinance programs, if well regulated, can provide an effective-stop-gap solution to sustainably reduce chronic poverty (Scott 2013). Setting aside criticisms of these programs as a development tool, it is worth remembering that microentrepreneurship provides an important welfare function for participants. While profit margins are slim to none, microentrepreneurs can still pay themselves a wage that they would not otherwise receive. Despite their limitations, responsibly implemented microfinance institutions are far preferable to the loan sharking that poor communities are subject to in the absence of microcredit (Levin 2012). Moreover, Grameen Bank

estimates that 68% of borrowers' families have risen above the poverty line¹¹ and cites noneconomic benefits accrued to borrowers, such as increased respect and social standing for female entrepreneurs, who compose 96% of Grameen's lending portfolio (Levin 2012). Taking these benefits into account along with the questions of how microfinance should be implemented and whether it can constitute a long term solution, there may be some role for microfinance among a suite of solutions to ameliorating global poverty.

An evaluation of the practice of spurring entrepreneurship through microloans does not yield clear answers about the relationship between increased firm creation and development. The history of Grameen Bank reveals both the positive effect of microloans on recipient communities as well as the potentially damaging effect of unrestrained credit markets. The failure of microfinance to lift communities out of poverty contributes to the thesis that, in the absence of institutional reform and policies that target high growth startups, entrepreneurship is not enough to catalyze economic development.

Where empirical studies have fallen short, a variety of theoretical frameworks in the tradition of industrial organization provide a space in which to rigorously investigate entrepreneurship as an aspect of economic development. Industrial organizational models provide the valuable contribution of allowing policymakers to identify conditions under which entrepreneurship is good for the economy. Instead of sponsoring entrepreneurship regardless of economic context, policymakers can apply these models to determine whether entrepreneurial activity is optimally allocated in the current state of

¹¹ A 2003 study calls into question the permanence of these benefits, acknowledging that while "micro-credit is associated with both lower objective and subjective poverty... the impact of microcredit on poverty is particularly strong for about six years with some levelling off after that point" (Chowdhury 2005, 298).

the economy. In other words, policymakers should only support programs to spur entrepreneurial activity if entrepreneurship is underallocated in the current composition of the economy.

Notwithstanding its benefits for policy and entrepreneurship researchers, industrial organization theory does not yet encapsulate externalities such as cultural change and career education that result from entrepreneurial activities. An analysis of the theory, history, and externalities related to entrepreneurship in the developing world can help global leaders and NGOs shape more effective public policy leading to inclusive growth. The next section considers how this vision may apply to Jordan.

Challenges and Opportunities for Entrepreneurial Development in Jordan

In order to understand the potential role of entrepreneurship in Jordan, this section explores the current state of the Jordanian economy. As previously discussed, the industrial organizational equilibrium provides an important tool to help regulators understand whether they should be promoting policies to help small businesses or large firms. Is Jordan more similar to Italy, with a glut of marginal entrepreneurs, or the Scandinavian countries, with a large government sector and too few innovative businesses? In truth, both unfavorable comparisons ring true. Jordan's large informal economy is the result of regulatory and taxation practices that stymie the creation of innovative businesses. Rather than investigating the question of where Jordan's industrial organization stands relative to its optimal level, policymakers should take a "rising tide lifts all boats" approach that will diminish the size of the unproductive "grey market" and increase productivity for new and existing businesses. Once these ease-of-doing business reforms are accomplished, policymakers can turn their attention to better understanding Jordan's industrial organizational composition and fostering entrepreneurship as they see fit. This section will outline Jordan's economic challenges, with a specific focus on factors limiting entrepreneurial growth.

Across a variety of economic indicators, Jordan performs better than other developing countries in the Middle East and North Africa. While the country's \$5,214 GDP per capita is slightly higher than the regional average, unemployment, and particularly youth unemployment, remains a major challenge (World Bank). By 2020, between 80 and 100 million jobs must be created across the MENA region in order to maintain current unemployment rates (Reimers, Dyer, Lettrick, and Ortega-Hesles 2013).

Jordan is no exception to this startling statistic. The country will need to increase employment by an estimated 375,000 full-time positions before 2020 in order to keep pace with population growth (Abdih, Gamba, and Selim 2014).¹² Ease-of-doing-business challenges, shown in the map below, represent a significant barrier to rectifying this challenging situation.

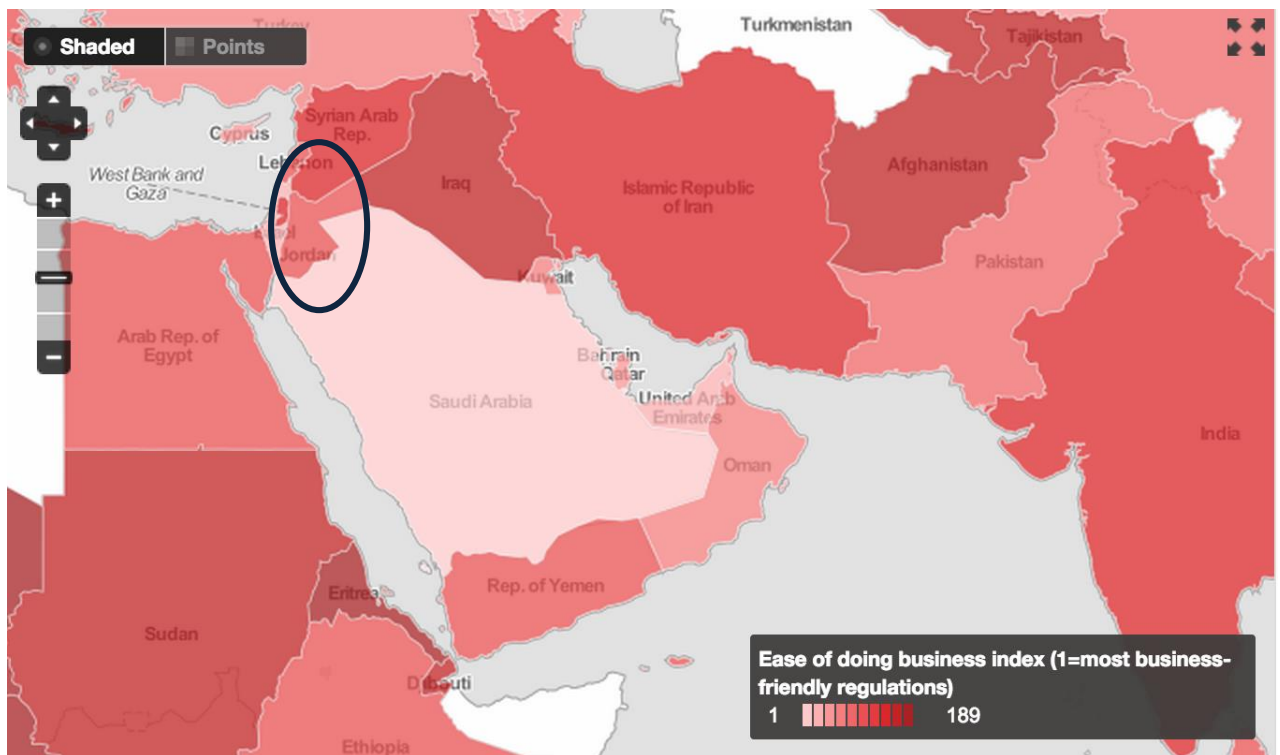


Figure 2: This map from the World Bank shows Jordan is fairly average in terms of ease of doing business across the MENA region (2014).

High unemployment levels are strongly correlated with political instability (Urdal and Strand 2008). One does not have to look far into the region's past to find evidence supporting this relationship. In 2010, a police crackdown on the informal economy in Tunisia triggered the self-immolation of a street vendor named Mohamed Bouazizi. This event was the first in a series of protests across the Middle East that came

¹² This figure does not even take into account labor market pressure exerted by Syrian refugees.

to be known as the Arab Spring (Ncube and Anyanwu 2012). As this example demonstrates, economic opportunity is inextricably linked to freedom.

The need to develop solutions to the region's toughest economic problems is paramount in order to avoid the escalation of existing political and religious conflicts. Even in a country like Jordan, which is relatively stable, the lack of economic opportunity threatens to exacerbate internal insecurity. In addition to the two million Palestinian refugees who reside in Jordan, more than 620,000 refugees have crossed the border from Syria since 2011. This population boom strains Jordan's small economy and limited natural resources. Many of these struggling refugees can be found selling small items on the capital's street corners and busy fairways. They are, in effect, microentrepreneurs, functioning outside the formal economy and desperate to provide for their families (Council on Foreign Relations 2014).

These businesses play an important welfare role for the individuals involved, but they do not promote economic growth. This could be said not only of refugee-run enterprises, but also of most businesses in the informal sector. According to the latest IMF report, unregistered enterprises represent 26% of the Jordanian economy. The vastness of what is sometimes called the "grey market" promotes low levels of labor force contribution to government social security programs and exposes participants to higher legal risks and lower access to capital. Of course, for participants the benefits of operating in the informal economy tend to outweigh the costs. This sector continues to grow because participants choose to sacrifice legal protections for the ease of unregulated market entry and nonexistent tax burden (UNDP 2013).

Though perfectly rational from the standpoint of the microentrepreneur, the existence of a large grey market is damaging to the economy as a whole. In terms of industrial organizational theory, the microenterprises of the informal economy inflate the number of very small firms, driving down the average firm size from the equilibrium level where output is maximized. Moreover, a large informal economy concentrates resources at the least productive level of economic activity (Carree and Thurik 2010; Scott 2009).

Not only is informal entrepreneurship harmful to macroeconomic production, it keeps microentrepreneurs trapped in poverty. Because the informal sector minimizes barriers to entry, it breeds replicative entrepreneurship (Baumol 2010). As a development consultant specializing in the Middle East explained:

These entrepreneurs are finding the easiest way to start a business... [Y]ou walk down the street and you see... different shops with the same thing, every other store[.] Well, that's because those are the easiest things to sell. And it doesn't require any start up expenses really. It doesn't require any thinking or problem solving or trying to come up with anything new. It's just a way to be self-sustainable and saturate the market with a bunch of businesses that do the same thing ("Development" 2015).

As microentrepreneurs open near-identical businesses, profits tend toward zero, propagating desperate poverty. These concerns illustrate the damage of the "piling in" effect within the microborrowing community, as discussed in the section above.

Because oversaturation is so prevalent in the developing world, entrepreneurial initiatives are not especially beneficial unless they specifically target enterprises with high growth potential (Carree and Thurik 2010). There is abundant evidence that only a small number of emergent firms will create employment opportunities and drive economic progress. A number of scholars¹³ have called for policy-makers and NGOs to focus less on subsidizing startups and devote their resources and attention to the subset of small businesses with the potential for high levels of growth (Mason and Brown 2013). Jordan has a number of venture capital firms, such as GroFin and Oasis500, which is promising for the future of innovation. Government programs and foreign donors nonetheless continue to pump money indiscriminately into small businesses. For example, USAID recently devoted \$49.5 million USD to building the capacity of microenterprises and small businesses through the Jordan Local Enterprise Support activity (“Development”). It should be clear by this point that more money injected into the current system is not a solution for economic development. Structural changes are needed to promote employment and entrepreneurship in the formal economy. In fact, William Baumol, one of the preeminent economists promoting entrepreneurship as a serious area of study, advances the theory that an institutional environment which encourages productive entrepreneurship is the ultimate determinant of economic growth (2010).

¹³ See Storey (1994), Acs (2008), and Lerner (2010).

	Jordan	MENA (developing only)	United States
GDP per capita	\$5,214	\$4,331	\$53,053
Ease of doing business	117	131	7
Unemployment (2012)	12.5%	Approx. 19%	8.1%
Youth unemployment	29.3%	Approx. 25%	16.2%

Table 1: Table comparing macroeconomic measures. All figures are 2014 unless otherwise indicated (World Bank).

At present, business regulations constitute a major barrier for would-be entrepreneurs. For example, extensive registration requirements to start a business necessitate an average 22.3 day wait period. The cost of these procedures¹⁴ is 21.4% of gross national income per capita.¹⁵ Compare these figures to 5.6 days and 1.2% of GNI per capita required to start a business in the United States, and you'll begin to get a sense of why registering a startup in the formal economy is unattractive, or perhaps impossible, for the average Jordanian (Word Bank).

These high costs are not applied equally to all business owners, as interactions with the government are highly inconsistent across the board. As the development consultant explained, "if you know somebody within the Ministries who is working on tax issues, you can get around taxes. In terms of moving your business through the Ministry of Trade... if you're just a normal person and you don't know anybody, it'll take you twice the time" (2015). King Abdullah II has called for an end to "corruption,

¹⁴ The World Bank group defines a procedure as "any interaction of the company founders with external parties (for example, government agencies, lawyers, auditors or notaries)" (Djankov 2002).

¹⁵ Investing a fifth of your yearly income to register your small business seems like a bargain compared to other developing countries in the Middle East, where start up procedures cost an average of 40.9% of GNI per capita (World Bank)

favoritism and nepotism” within his government, yet little has been done to substantively increase transparency (Richards 2011). Moreover, public policies unfriendly to small business also contribute to a network of corruption that extends through all levels of the economy. For example, entrepreneurs looking to officially register their small business must rent an office or workshop or else pay a fee for starting their business from home. It is much cheaper to pay the owner of a building for a fake contract to use for the purpose of government registration (“Young Entrepreneurs” 2015). Substantial levels of socially wasteful transfers¹⁶ between rent-seeking organizations and legitimate firms present a major barrier to entry in the formal economy (Dias and McDermott 2005).

The issues associated with the tax code contribute to a vicious cycle of tax evasion and rising participation in the informal economy. Jordan’s taxes are considerably higher than those of nearby countries, and are even quite substantial when compared to developed nations with strong social safety nets like Japan and the U.S. The complex tax system heightens the mistrust business owners harbor for the formal economy because it is replete with “exemptions contradicting the standards of competency, efficiency, justice and equality.” Ineffective official records and databases as well as inadequate training programs within tax administration contribute to a significant tax evasion problem. In 2012 alone, the government suffered an estimated \$1-1.6 billion USD in lost revenue (Jordan Economic & Social Council 2014). This bloated, poorly administered system is perhaps the greatest deterrent to entrepreneurship in Jordan.¹⁷

¹⁶ Examples include bribes, extortion payments, protection money, and lawyers fees for purposes such as settling frivolous suits (Dias and McDermott 2005).

¹⁷ Dias and McDermott (2005) found that cutting the marginal tax rate on entrepreneurs is substantially superior to other policy reforms in terms of improving living standards within a 50 year time frame.

While regulatory and tax challenges form the largest barriers to entrepreneurship, other geopolitical and cultural factors also negatively impact new and existing businesses. For example, entrepreneurial development is hampered by the lack of funding for research and development (R&D). In the last reported year (2008), R&D undertaken by both the public and private sector was reported at .42% of GDP, compared to 2.77% for the U.S. (World Bank). This meager figure represents cause for concern given the importance of R&D in the knowledge spillover theory, which outlines how entrepreneurs play the important role of translating technological improvements into economic gains. Where R&D is not a priority, this pipeline is stymied (Sanders 2007).

Another challenge impacting Jordanian small business owners is the lack of supply chains across neighboring nations. As long as conflict dominates these nearby countries, this problem remains intractable. Raw materials used to be sourced through Egypt and Syria, but these channels are now blocked by instability. Even importing and exporting across the border with Israel can be quite difficult. Export is reliant on air, which is often prohibitively expensive for new businesses (“Development” 2015).

Increasingly, economists have been looking to culture to explain economic divergence between nations (Chakraborty, Yehoue, and Thompson 2015). In addition to political systems, cultural factors shape the entrepreneurial environment, influencing who will become entrepreneurs and what kinds of businesses they will create. The following analysis will address the economic impact of cultural norms surrounding personality expression, religion, women, financing, communication styles, and goals for growth.

An individual’s commitment to entrepreneurship is characterized by the interaction between personality, “situational factors [that] may trigger or suppress the

manifestations of personality traits,” and the motivation to start a business (Choi, Oh, and Colbert 2015, 1543; Hattab 2014). Social researchers have found that three of the five core personality traits identified by lexical personality researchers are key to successful entrepreneurship (Gladwell 2013). However, possessing these traits and the drive to engage in entrepreneurship is not enough to ensure that an individual will start a new business. According to trait activation theory,¹⁸ national cultures can trigger the expression of certain personality characteristics (Choi, Oh, and Colbert 2015). If one assumes that individuals interested and skilled in entrepreneurship are distributed equally across the globe, cross-cultural differences are second only to institutional factors in terms of influencing the size of the entrepreneurial sector.

Social researchers have found that disagreeableness,¹⁹ conscientiousness,²⁰ and openness to experience²¹ are characteristics highly beneficial to entrepreneurs as they find and implement new ideas (Gladwell 2013). These personality traits have been extensively studied as components of the Five-Factor Model developed by Lewis Goldberg (1981).²² This confluence of personality characteristics is quite rare, particularly given the inherent contradictions between conscientiousness and

¹⁸ See Tett and Guterman (2000) and R. Meyer, Dalal, and Hermida (2010).

¹⁹ Individuals high in disagreeableness tend to be uncooperative, inflexible, and unforgiving, but more importantly they do not need the approval of their peers before doing what they think is correct (Choi, Oh, and Colbert 2015, Gladwell 2013). Disagreeableness is very challenging to cultivate due to social incentives to seek approval and please others, therefore disagreeableness often requires a great deal of courage (Gladwell 2013).

²⁰ Contentious individuals are likely to be “dependable, carefully organized, hardworking, and achievement oriented” (Choi, Oh, and Colbert 2015, 1545). They typically have “a liking for rule-governed behavior” (Organ & Lingl 1995, 341).

²¹ This trait refers to the pursuit of novelty and complexity, as well as “a tendency to be imaginative, cultured, curious, original, broad-minded, intelligent, and artistically sensitive” (Aguilar-Vafaie and Moghanloo 2008; Choi, Oh, and Colbert 2015, 1544).

²² This model is commonly accepted by personality researchers since the 1980s as the best personality inventory. It measures the expression of five core personality traits: openness to experience, conscientiousness, extroversion/introversion, agreeableness/disagreeableness, and neuroticism, frequently abbreviated OCEAN (Choi, Oh, and Colbert 2015).

disagreeableness. However, this set of traits is common among successful entrepreneurs. Individuals possessing these three characteristics have an advantage within the startup sector; therefore, it stands to reason that helping these entrepreneurially inclined personalities start businesses will increase industrial organizational efficiency (Gladwell 2013).

In describing the importance of disagreeableness in the entrepreneurial personality, Malcolm Gladwell argued:

Innovators need to be disagreeable... They are people willing to take social risks — to do things that others might disapprove of. That is not easy. Society frowns on disagreeableness. As human beings we are hardwired to seek the approval of those around us. Yet a radical and transformative thought goes nowhere without the willingness to challenge convention (2013).

Consider famously abrasive Apple founder Steve Jobs or Ikea founder Ingvar Kamprad, who outsourced manufacturing to Poland at the height of the Cold War and was considered by many in his native Sweden a national traitor for doing so. These individuals were able to successfully revolutionize their respective industries in part because they recognized an opportunity that others would have overlooked or considered distasteful, and then they had the audacity shrug off the disapproval of their peers in pursuit of their radical idea (Baer 2015).

If disagreeable personalities are shunned in an individualist culture like the U.S., this is even more often the case in a collectivist society like Jordan (Choi, Oh, and Colbert 2015; Flaherty 2010). The World Values Survey (WVS) reveals Jordanians are

twice as likely as Americans say it is important “to always behave properly; to avoid doing anything people would say is wrong” (2010-2014). This response indicates that Jordanians are less likely to be disagreeable, and therefore less likely to start a disruptive business that will engage in Schumpeter’s “creative destruction.” The cultural stigma against novelty and social risk-taking creates a barrier to recognizing entrepreneurial opportunities, much less taking the step of acting upon them. The possible reasons for this cultural emphasis on agreeableness include the influence of strong family culture and religious values.

In Jordan, families tend to be much larger and much more connected than in individualistic societies. Children tend to live with their parents much longer and seek their parents’ opinion about important matters such as degree selection, career choice, and marriage (Flaherty 2010). A Jordanian is four times more likely than an American to strongly agree that “one of my main goals in life is to make my parents proud” (WVS 2010-2014). The relationships built within families form the cornerstone of Jordanian society, fostering respect²³ and mutual trust²⁴. While these traits support economic productivity in general, they discourage the expression of disagreeable personalities that could contribute to the formation of high growth enterprises (Breuer and McDermott 2015).

In addition to the importance of family ties, 93.3% of Jordanians state that religion is very important in their lives²⁵ (WVS 2010-2014). Results of a study of Muslim college students indicated religion is significantly related to all Five Factor

²³ 84.8% of Jordanians strongly agree that “[g]reater respect for authority is a good thing,” compared to 55.2% of Americans (WVS 2010-2014).

²⁴ Jordanians are also more likely to see themselves a part of a local community (47.5% strongly agree compared to 25% of Americans) (WVS 2010-2014).

²⁵ Compared to 40.4% of Americans who say religion is very important (WVS 2010-2014)

Model personality domains, with a particularly positive effect on agreeableness and conscientiousness. Regarding the expression of openness, the researchers found discrepant results across the four aspects of religion used in the study (Aguilar-Vafaie and Moghanloo 2008). This pattern of correlations between personality traits and religiosity indicates that Islamic cultures encourage the expression of conscientiousness, which is beneficial to entrepreneurship (and in fact the most beneficial trait for success in workplace more generally), and agreeableness, which is disadvantageous to entrepreneurship (Gladwell 2013).

In order for entrepreneurship to be encouraged as a career path, innovation must be nurtured within an individual's family and peer group. This is a challenging metric to study because there is no objective measure of innovativeness within society. Furthermore, an analysis of Jordanian responses to relevant World Values Survey (WVS) questions is inconclusive. When asked about important qualities to promote in children, for example, only 14.8% of Jordanians mention imagination (compared to 30.5% of American respondents). However, Jordanians are more likely to respond that it is important "to think up new ideas and be creative; to do things one's own way" (57.6% of Jordanians compared to 34.7% of Americans). Almost two-thirds of Jordanians would describe themselves as having an active imagination (no response data for American available) (2010-2014). These statistics seem to point to the importance of creativity and openness within the Jordanian mindset.

Based on this analysis, it seems reasonable to conclude that Jordanian culture encourages the expression of two of the three personality traits beneficial to high-growth entrepreneurship. While openness and conscientiousness form an important threshold for

entrepreneurial aptitude, these traits are also valuable across many aspects of the job market. Disagreeableness, on the other hand, is an important factor distinguishing entrepreneurs from employees and constitutes a major advantage within the entrepreneurial sector (Gladwell 2013). If policymakers and educators want to get serious about spurring the creation of high growth businesses, they would do well to critically evaluate aspects of Jordanian culture than inhibit the expression of disagreeable personalities.

The conservative culture surrounding economic norms for women may also limit potential entrepreneurial development. The reasons women do not participate equally in the labor market include hiring discrimination, the responsibility to take care of children, fears for their safety, a lack of trust toward men, and resistance within family and society to pursue anything other than a few “culturally appropriate” jobs (Reimers et al. 2013). The inequality of opportunity between the genders results in a loss of productive potential, lower family incomes, and a smaller talent pool for all economic sectors.

While the aforementioned challenges pose a significant barrier for businesswomen, that is not to say there are no female entrepreneurs in Jordan. I spoke to one young woman who started a retail business while a university student. Her startup capital was the money her parents gave her with the original intention of buying her a car. Despite her family’s openness to her decision to redirect the funds to open her shop, they frequently expressed concerns about her safety as she often had to stay downtown with her business partner (also a female university student) after 11pm in order to close up the store (“Female Entrepreneur”). To some extent, this concern for their daughter’s safety is not entirely rational; overall crime levels remain low in Amman, and violent crime, often

attributed to tribal violence, is rarer still (“Crime and Safety”). Yet the reaction of the entrepreneur’s family speaks to a deeper concern that is prevalent across all aspects of society: women are not encouraged to trust men (“Development Consultant”).

The separation between the genders varies by location but is fairly strictly maintained. At most colleges, it is rare to see mixed gender groups talking. Walk down a street in Amman and you will see cafes populated with male customers, smoking hookah, watching sports, and talking. Women are culturally barred from this social forum, which further perpetuates gender divided society. In this environment, where women are generally discouraged from pursuing relationships with men outside of family and spouse, how are women expected to enter into mentor relationships and business partnerships with men? And given this barrier, how can women enter the entrepreneurial scene on equal footing with their male counterparts – going head-to-head for customers and venture capital? Jordan will need to see some shift in terms of gender relations, in order to realize the productive potential of its male and female citizens.

The slow penetration of technological communication also presents a barrier to entrepreneurial growth in an increasingly globalized marketplace. The spread of digital means of communication, email for example, is hampered by limited access to technology. According to a 2013 Pew report, only 47% of Jordanians use the internet (Ghazal 2014). Cultural preferences for face-to-face communication further limit the opportunity for “market-based coordination” through technology (Carree and Thurik 2010). However, many economic geographers highlight the continued importance of face-to-face interactions for business (Aoyama, Murphy, and Hanson 2011).

The challenge of securing financing was mentioned by most every entrepreneur and venture capital fund manager with whom I spoke. One factor contributing to this issue is the constraint that Islamic finance places on funds available for businesses. This model of socio-economic integrity has experienced considerable growth, up to 15% over the last ten years (Ilias 2010). Because Islamic finance prohibits banks from charging interest or transferring risk onto the entrepreneur, these banks are more focused on consumers rather than business finance (Stubing 2015). Moreover, Jordanian entrepreneurs are less willing to accept financing in exchange for stake in the company, which is seen by some as “taking advantage” (“Young Entrepreneurs” 2015).

In evaluating the future of entrepreneurship in Jordan, it is worth noting that each society has different goals for growth; not every culture needs to be geared to maximize economic performance. Moreover, there is no such thing as a “best culture for entrepreneurship.” While it is true that individualistic societies produce more entrepreneurs because individualism tends to encourage entry into entrepreneurship, collectivist countries tend to have more ambitious entrepreneurs who expect to create more jobs. This may be because, in collectivist societies, entrepreneurs are more aware of the societal benefits of their business or perhaps because people are more ambitious in general (Autio 2014). In fact, 76.4% of Jordanians responded that “being very successful is important or very important to me personally,” compared to only 25.3% of Americans (WVS 2010-2014). Jordanian entrepreneurs have the drive required to grow large businesses, though they may lack the proper tools. A reevaluation of entrepreneurial education may shed light on whether entrepreneurs are being adequately equipped to take on the challenges discussed in this section.

Given the current state of politics, culture and the economy, what opportunities exist to promote the type of entrepreneurial activity that will cause the GDP to grow and increase economic prosperity for all? The Jordanian economy has a number of sectors that should be targeted for growth. These industries include information and communications technology, healthcare services, clean energy, and banking. However, these fields require high capital investments and some, particularly telecommunications and banking, are already dominated by large players (“Development”).

Information and communications technology is a particularly prosperous sector of the Jordanian economy. Bloomberg named Amman the 10th best city in the world for a tech startup. Since 2007, ICT in Jordan has enjoyed an average growth of 25% year-over-year and currently composes 14% of GDP. Jordan currently produces three-quarters of Arabic web content and has become a hub for regional technology development. There is significant opportunity for expansion within this sector, however Jordan’s gap in early-stage investment remains a major barrier to growth (Waugaman 2012).

Outside the tech sector, most innovative Jordanian businesses can be categorized as catering to tourists and the wealthy or focusing on bringing goods and services to the average Jordanian in a new way. For example, entrepreneurs selling hand-carved kitchenware at a summer street market would fall into the tourism category, while opening a consignment store (an innovation in the Jordanian marketplace) represents a development business (“Entrepreneurship Professor” 2015). As much of Jordan’s population is composed of desperately poor refugees from conflicts in neighboring countries, there is also room for social entrepreneurship that could serve this market with low-cost innovations, such as improved temporary housing.

In conclusion, the key to promoting entrepreneurship, and business growth in general, is fixing institutional challenges surrounding excessive regulation, corruption, and heavy tax burden. Though the problems are significant, they have been effectively ameliorated in other countries through targeted institutional transformation. Ease-of-doing-business reforms could begin with anti-corruption measures and a revolutionized tax system, two areas that represent a significant barrier to entrepreneurs who wish to formalize their businesses. Beyond these institutional issues, Jordan faces several geopolitical and cultural factors impacting entrepreneurship. Policymakers interested in spurring entrepreneurship should carefully consider the nuances of these factors in order to possibly fine-tune entrepreneurial performance once ease-of-doing-businesses reforms are underway. Jordanian policymakers could also consider improving access to entrepreneurial education in order to help the country's highly motivated population take advantage of opportunities for entrepreneurship.

Evaluating Education as a Pathway to Development

As discussed in the previous sections, education has important ramifications for the development of the economy. Sanders' knowledge creation theory outlines the important baseline that investments in education, R&D, scientific institutions, and entrepreneurship provide for economic development (2007). Moreover, access to education, "directed to the full development of the human personality," is one of the UN's fundamental human rights ("The Universal Declaration of Human Rights" 1948). Education also plays an important role in setting national priorities for the next generation. Given Jordan's "youth bulge" in population demographics, the need to closely examine educational quality is paramount to the successful achievement of development aims (Urdal and Strand 2008).

Based on the opportunities and obstacles discussed above, it is clear Jordanian entrepreneurs face challenges beyond those of simply bringing a product to market. Some of these challenges may be mitigated through an improved focus on entrepreneurial skills within educational institutions. According to an OECD report, entrepreneurial education represents "all activities aiming to foster entrepreneurial mindsets, attitudes and skills and covering a range of aspects such as idea generation, start-up, growth and innovation" (Fayolle 2009). Incorporating entrepreneurial skills and mindsets into primary and secondary education is a major goal of Jordanian policy reforms in the last two decades (Masri 2010). Broadly speaking, this type of entrepreneurship education promotes the attitudes and behaviors that support entrepreneurship. It is often integrated into other academic subjects and requires students to go through an entrepreneurial learning process whereby they identify opportunities for learning and actively construct

knowledge through self-guided research (Verboon 2015). Moreover, universities and colleges have recently expanded access to entrepreneurial-specific courses (“Entrepreneurship Professor” 2015). This training represents a narrower definition of entrepreneurship education that can be implemented across or in addition to business courses to provide practical and theoretical content about entrepreneurship (Verboon 2015). In order to assess how these entrepreneurial teaching styles and entrepreneurship classes impact society at large, a review of the current state of education is required.

Jordan is proof that “access to schooling does not always lead to high living standards or high growth rates” (Dias and McDermott 2005, 299). The country is relatively well-educated,²⁶ yet it suffers from a mismatch between the skills provided by higher education and those required to participate in the work force (Reimers et al. 2013). All schools in Jordan up to the collegiate level follow the same national curriculum, which is based heavily on memorization (Adley 2004). Although there are significant variations across schools and teachers, in most classrooms the teacher’s responsibility is to transmit information, pose questions, and evaluate the students’ responses. Where the learning environment is teacher dominated, there is less emphasis on the development of creative thinking, problem solving, leadership, teamwork, and communication (Masri 2010). At the time of a 2007 USAID study, only 33% of teachers encourage students to debate and dialogue and a very small percentage utilize “methods such as project-based learning, analysis and criticism of study topics, self learning, and learning through workshops” (Light, Method, Rockman, Cressman, and Daly 2008, Masri 2010, 23). The findings contribute to the conclusion that “[m]ore effort is generally needed in the in-

²⁶ As of 2012, Jordan boasted 98% enrollment in primary education and 47% enrollment in university (World Bank 2012).

service training programmes to help teachers enhance the innovative and entrepreneurial skills and attitudes of their students” (2010, 23). Not only are these soft skills an important element of the “full development of the human personality” described by the UN, they are also critical for career success (*United Nations* 1948, Masri 2010).

In addition to the transmissive teaching style, Jordanian students are also negatively impacted by their lack of access to career development resources. Students have little agency in determining how they can best utilize their unique skills and interests as future members of the work force. At the end of 10th grade, students are sorted into one of three groups based on GPA in preceding two years of school. The top two groups, which compose the “academic track,” are open only to those with the highest GPAs. These 15- to 16-year-olds are asked to choose between studying the humanities or the sciences. This selection is often based on past academic performance and the wishes of the student’s family, rather than the interests and career goals of the student. The “vocational track” is open to the students who receive the lowest third of GPAs, however many drop out rather than select this less prestigious option. This system, in which the majority of students effectively have their majors chosen for them by their parents and the educational establishment, promotes ineffective industrial organizational allocation: a shortage of graduates with vocational skills and an overabundance of students with skills that do not align with their career preferences (Adley 2004).

Recognizing the weaknesses of the educational establishment, Jordanian policymakers have created a variety of initiatives to promote modernization. For instance, the Educational Reform for the Knowledge Economy (ERfKE) of 2003 sought “to enhance the learners' competences in such fields as critical thinking, problem solving,

entrepreneurship, self learning, etc.” (Masri 2010, 20). In describing the impact of these efforts, Dr. Munther Masri, Former Minister of Education in Jordan, wrote that “[w]hile the policy framework for EPE [entrepreneurial education] is well developed, there is a need for improvement at the implementation level, regarding skills-oriented teaching and learning” (2010, 5). The USAID report reveals that these changes are ongoing and that new textbooks and curricula are not enough to overcome long-held teaching practices (Light et al. 2008).

Because primary education is “common, compulsory, non-specialized and covers a wide spectrum of disciplines,” it provides an excellent opportunity to cultivate students’ entrepreneurial attitudes about knowledge development (Masri 2010, 8). Teachers can encourage spur the growth of entrepreneurial soft skills by:

- Giving students more responsibility in the classroom through class discussions, student-directed learning, and other initiatives to increase students’ involvement in the learning process
- Encouraging students to think critically about how to acquire information to complete projects, write reports, and solve problems
- Allowing students to learn from each other through projects, discussions, workshops
- Providing students more freedom to explore their academic interests

These types of initiatives have been a priority for reformers in Jordan since Education Law, 1994. This statute outlines the overall philosophy of the educational system and enumerates many entrepreneurial characteristics students should acquire through their schooling (Masri 2010).

Unlike other initiatives discussed thus far that aim to encourage entrepreneurship, a broad based entrepreneurial education program has very low opportunity costs. In other

words, it is a significant improvement over alternative programs. The only significant tradeoff is giving up the status quo. Improvement has occurred slowly, though some advances have been made toward achieving the aims of the 1994 law. For example, the USAID report on the Jordanian Education Initiative reveals some successes in terms of student engagement and opportunities for teachers to learn and share best practices (Light et al. 2008).

Institutions of higher learning have also seen expanded access to entrepreneurship classes in recent years. In keeping with the economic principle that more choice is beneficial, these courses could be seen as an improvement in the number of course offerings. In contrast to a broad based entrepreneurial education, a narrow focus on entrepreneurship has significant opportunity costs for students who could have invested their undergraduate or graduate years studying business, economics, or another field of study (perhaps one specifically aligned to the student's entrepreneurial interests). Before outlining the potential impact of these entrepreneurship courses, I first discuss the current state of college education.

As in primary and secondary education, university students are exposed to a lecture-based style of teaching and have little to no exposure to advising, career counseling, or internships, even at an elite private school as shown in Figure 3 (Masri 2010). As a result, only 50% of Jordanians believe formal education provides the skills and training to find employment, and the figures are equally poor in favor of readiness to start a business (WVS 2010-2014). Business experts are even more pessimistic that students of business, a popular major, will graduate with practical skills. In describing the difference between a business degree and his firm's training programs for

entrepreneurs, a venture capitalist explained, “[in university] you are studying how to prepare a business plan, or how to establish a financial system... but it’s considered as an academic study. So what we are doing is a field study, to take real cases for these companies, it’s not theoretical” (2015). Where traditional business degrees are seen as failing to prepare students for the real world, a degree in entrepreneurship may not carry the same stigma, regardless of the impact on the degree holder’s preparedness to enter the formal economy or start their own company.

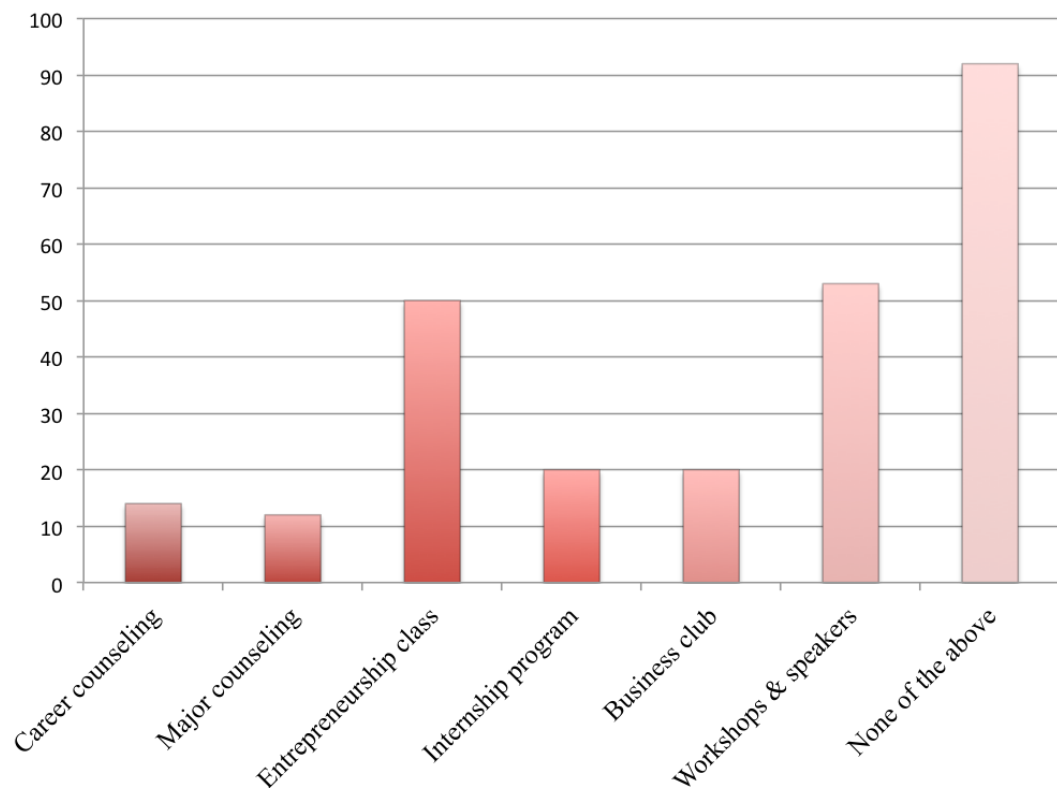


Figure 3: Chart depicts utilization of academic and career services among population of 229 undergraduate and Masters students at a private university in Amman.

The relative absence of academic choice, career training, and development of skills needed for the workforce contributes to fact that the Middle East and North Africa face the highest youth unemployment in the world. Employers are left shouldering the

significant burden of teaching new employees the hard and soft skills needed for the job. Across the MENA region, only 54% of CEOs interviewed by Arab Human Capital Challenge felt the educational system provides graduates with an adequate skill level (Reimers et al. 2014). Half of Jordanian companies provide training to new hires at an average cost of \$2,321 per employee per year, considerably higher than anywhere else in the region (“Education” 2011). Considering how far behind students are upon graduation, it is no surprise that 13.2% of Jordanians agree 20-somethings have extremely low position in society²⁷ (WVS 2010-2014).

The poor quality of existing business education provides major challenges for Jordanian students and society. Jordan and a handful of other MENA countries are unique in that unemployment figures actually worsen as educational attainment improves, to the extent that 37% of unemployed individuals have completed college (World Bank 2012). Among the most educated women, unemployment rates are upwards of 60% (Mottaghi 2014). These statistics indicate the urgent need to create jobs for highly educated students.

Entrepreneurship classes may help promote the development of new businesses and thereby provide job opportunities for individuals with high levels of human capital. Jordanian policymakers should also consider other changes to education that will improve the economy, beginning with a focus on early education. For example, curriculum design should advance the development of critical thinking and problem solving skills. Moreover, students need to be granted more individual agency to select an academic path that aligns with their passion rather than test scores. These changes would require a considerable retooling of the Jordanian educational machinery, including

²⁷ Compared to just 4.1% agreement among Americans (WVS 2010-2014).

training for instructors, new textbooks, and creating major and career advisors. Provided with better career skills and more academic freedom, students can more efficiently sort themselves into a career that aligns with their talents and goals, thereby increasing economic output through more optimal industrial organization.

In addition to the suite of reforms proposed above, increasing access to entrepreneurship classes may help students gain practical skills they can put into use after graduation. A number of researchers²⁸ have found that entrepreneurial education is key in increasing entrepreneurial attitudes of students (Hattab 2014). The effectiveness of these classes hinges on the assumption that “entrepreneurial skills can be taught and are not fixed personal characteristics” (Hattab 2014, 4).²⁹ While some economic theorists contend that the supply of entrepreneurs is static, others (such as Hirschman [1958] and Baumol [1990]) contend that the supply of entrepreneurs is latent and can be summoned to entrepreneurship given the correct institutional conditions (Dias and McDermott 2005). The latter view is more in keeping with my own opinions on the subject, and seems more likely given the flexibility of personality expression as described in the prior section.

It is yet to be seen whether these classes will promote entrepreneurship or whether the study of small business creation will provide students more effective career training for employment in existing companies. My small survey of Masters of Entrepreneurship found that only 50% were interested in starting a business after graduation. Though Jordan has a culture of self-entrepreneurship, this career pathway is fairly uncommon among young people, who run only about 5% of micro, small and medium enterprises (International Labour Organization 2015). Perhaps the lack of access to entrepreneurial

²⁸ See Wilson, Kickul and Marlino (2007) Liñán, Rodríguez-Cohard and Rueda-Cantuche (2010), and Do Paco, Ferreira, Raposo, Rodrigues and Dinis (2011).

²⁹ See also Drucker (1985), Rushing (1990), and Oosterbeek, Van Praag & Ijsselstein (2007).

education is partly to blame for this statistic, and expanded access will help provide opportunities for young people at small and nascent firms. Indisputably, entrepreneurship classes will help some students become more effective entrepreneurs by teaching them how to select a marketable product, make a business plan, and seek funding. As of 2012, Jordanian universities offered no graduate or undergraduate programs in entrepreneurship, although there are now several universities offering these classes and one even offers a Masters of Entrepreneurship (Bawaneh 2012).

I hypothesize that students are gravitating toward studying entrepreneurship for a number of reasons. As discussed earlier in this segment, studying entrepreneurship may be preferable to the closest compliment, a business major, which is perceived as ineffective training. Furthermore, entrepreneurs must be generalists, therefore these classes may provide more holistic preparation to enter the business world, particularly given the uncertainties of the Jordanian job market. Many Jordanian graduates will go to work for a family business or a small firm, therefore entrepreneurship provides more effective preparation than a business major for work in these small enterprises (Flaherty 2010). Finally, the lecture style class is unlikely to be effective in an entrepreneurship course, therefore students may prefer to study entrepreneurship because they are exposed to a more hands-on teaching style (Hattab 2014).

In addition to the benefits of entrepreneurial education, there are also some risks associated with expanding access to these classes. First, entrepreneurship classes may present an overly rosy picture of the challenges of starting a business, causing unprepared students to create marginal startups that are likely to fail. Second, these classes may encourage too much entrepreneurship, artificially lowering average firm size below the

industrial organizational equilibrium. Third, entrepreneurship education may not best meet the demand for small business education. Students that want to work in small businesses, not startups, may be better served by studying business, but only if business education is improved. Lastly, the push to expand entrepreneurial classes should not distract from institutional challenges that have a larger impact on the quantity and quality of entrepreneurial ventures.

What factors will shape the success or failure of these entrepreneurial courses? Like microfinance programs, these classes will be most effective when specifically tailored to the cultural environment in question (Levin 2012). Curriculum designers need to be aware that the standard teaching structure of Jordan (lecture style classes with little to no class participation or study of real world business cases), will not be effective in the instruction of entrepreneurship (Bawaneh 2012). The inherently disruptive nature of these classes could be a major component of their success in attracting large numbers of students and providing a new model for education. On the other hand, directors of entrepreneurial programs need to avoid the trap of encouraging too many students to enter entrepreneurship by misleading students about the ease of starting a business. These programs should be competitive so that they present an honest reflection of the entrepreneurial landscape. Students must also weigh the potential risks and benefits before embarking upon a course of study focused on entrepreneurship.

One final note about entrepreneurial education: it is worth reiterating that institutional quality is key to improving all aspects of the economy, including the entrepreneurial sector. According to Dias and McDermott, “cutting the marginal tax rate on entrepreneurs is more effective than any other policy in raising living standards within

a 50-year horizon” (2005, 301). Reducing taxes and corruption will increase the number of entrepreneurs and, in turn, increase demand for human capital. As discussed in earlier chapters, societies with more entrepreneurs have higher educational achievement among young people. Therefore, increasing the demand for education through institutional reform (decreasing taxes and rent-seeking behavior) is substantially more effective than increasing the supply of education (reducing its cost). This conclusion demonstrates that in terms of spurring growth, institutional quality reigns supreme (Dias and McDermott 2005).

While the major constraint on entrepreneurial activity is institutional in nature, there are a number of improvements to the educational sector that would improve economic performance. This section explores two such initiatives: 1.) a broad focus on entrepreneurial skills and mindsets within primary and secondary education and 2.) a narrow focus on entrepreneurial courses in colleges and universities. The first initiative is very much in-line with current efforts by the Jordanian government to reform the educational system. However, the 2008 USAID report reveals the limitations of top down efforts in promoting short-term change. The expanded access to entrepreneurship-specific classes allows motivated university students to gain the skills they need to more easily start their own businesses. The expansion of entry-level job opportunities is critically important in Jordan given the high levels of unemployment among youth with tertiary educations. This strategy is not without risks, which include encouraging too many students to start marginal firms that are likely to fail. However, given that a likely alternative to opening a business is unemployment, it seems a worthwhile project to equip

interested students with skills that will help their entrepreneurial ventures be more successful.

Conclusion

Entrepreneurship is an important puzzle piece of any economy. Its centrality to economic growth is supported by industrial organizational models such as Sanders' knowledge spillover theory (2007). This economic tradition provides support for initiatives to increase the ease of doing business and investment in R&D. However, these theories have no clear recommendation for the role of education in spurring entrepreneurship. To investigate this question, I researched the state of the economy and education in Amman, Jordan. My findings indicate a limited role for entrepreneurship education amidst a suite of other development policies that will indirectly spur entrepreneurship.

Institutional reforms constitute the key to improving economic development. The implementation of ease-of-doing-business reforms, such as decreasing government regulation and reforming the tax code to remove loopholes and other complexities, would have a significant impact not only on spurring entrepreneurship but on increasing the growth of all businesses (aside from those few engaged in rent-seeking activities permitted by poorly designed institutional structures). In addition to promoting development, these reforms would have the benefit of decreasing participation in the quasi-legal grey market where laborers work without legal protection or tax contribution.

The major obstacle to instituting the most effective reforms is bureaucratic inertia. A full 12.7% of Jordanians work in the public sector, meaning that they stand to benefit from the objectively bad policies allowing for corruption and duplication of government services (Abdih, Gamba, and Selim 2014). This situation is unlikely to change any time soon given that 54% of Jordanian youth prefer public sector jobs to private sector jobs.

As a result of the irrational expectation that the public sector can absorb the majority of new labor force entrants, most of these young people wind up with an unfavorable job in the informal sector (Mottaghi 2014).

Aside from the low hanging fruit represented by these institutional changes, Jordanian policymakers should use industrial organizational theory to approximate an optimal allocation of small, medium, and large firms in the economy. Carree, van Stel, Thurik, Wennekers (2002, 2007) performed this calculation for G7 countries and were able to make policy recommendations that would increase or decrease the number of entrepreneurs and small businesses, thereby nudging a given economy closer to its industrial organizational equilibrium. However, policymakers should think twice before implementing programs to decrease self-employment. Entrepreneurship may be intrinsically preferable to traditional employment due to the increased flexibility and sense of self-actualization this career provides. Moreover, entrepreneurial activity may have spillover benefits for other aspects of society, spurring cultural and educational shifts that will indirectly contribute to economic growth over a longer timeframe.

In recent years, entrepreneurial education has caught on at elite Jordanian universities as a potential complement to or substitute for a business education. It is unclear if these programs will increase entrepreneurship, and if so, whether the companies started by program graduates will have a meaningful impact on providing jobs and growing the economy. Nonetheless, promoting self-employment should be considered a potential short-term solution to the unemployment crisis faced by Jordanian youth, particularly college graduates. If entrepreneurship programs can provide these

students the skills to establish fulfilling businesses where the alternative is unemployment, these courses should be considered a success.

Appendix

To supplement my literature review on entrepreneurship, I traveled to Amman, Jordan from March 8 to 14 to conduct interviews with professors, entrepreneurs, and other individuals involved in the startup sector. I spoke to seven individuals about their experience with entrepreneurial education and challenges and opportunities surrounding entrepreneurship in Jordan.

In addition, I collected survey data from 229 students at private university studying business and entrepreneurship. This survey, written in English and administered online through Qualtrics (85% of total) and in printed handouts (15% of total), was designed to gather data about the classes, goals, and perceived career preparedness of students. There were four main sections:

- Basic demographic information
- University-related questions surrounding availability and utilization of services such as career counseling
- Academic questions about the interviewee's degree program, experience in business classes, and perceived quality of overall academic experience
- Career questions regarding the interviewee's ambitions, participation in career development opportunities, and perceived job-readiness

The relevance of this survey to my ultimate topic of study, entrepreneurial education, is somewhat limited given that the questions focus mainly on business classes and general career preparedness. The survey findings on entrepreneurship are particularly problematic given that many of the students were studying other aspects of business and therefore lacking the relevant experience to comment on the quality of entrepreneurial education. However, this survey did provide useful background knowledge regarding the perceived quality of academics and services offered by a Jordanian university.

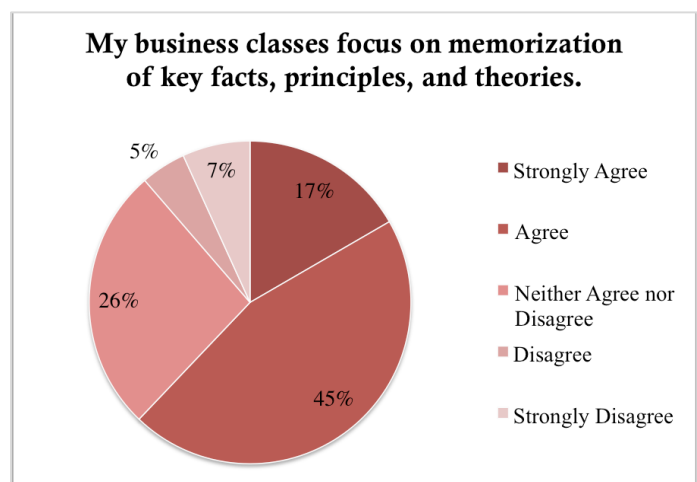
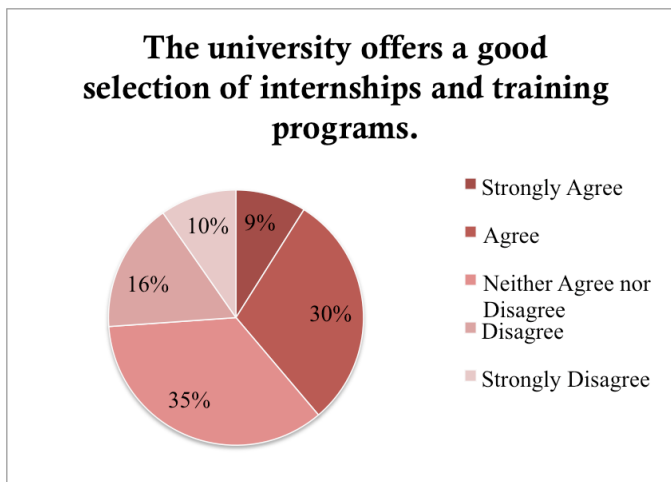
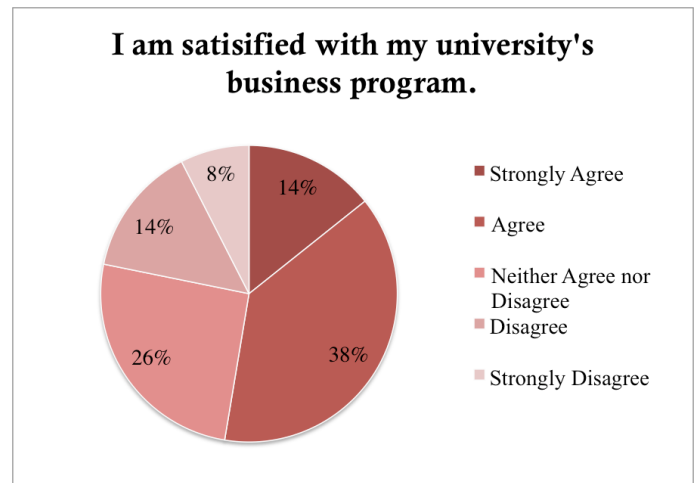
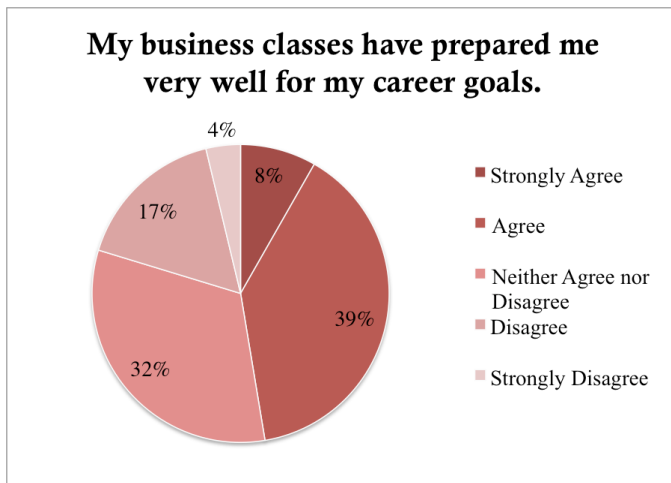


Figure 3: Charts depicting selected results from survey of undergraduate and Masters students at Jordanian university.

This research opens up a number of possible avenues for future study in terms of career services and the potential expansion of entrepreneurship classes. For example, research should be conducted at public and private universities to compare the perceived quality of career preparation services provided to students. Moreover, a longitudinal study following prospective entrepreneurs through college and into the workforce would help define the value of entrepreneurial training.

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